

Legislative Fiscal Bureau

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State of Wisconsin

January 24, 2008

Senator Mark Miller, Senate Chair
Representative Kitty Rhoades, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Miller and Representative Rhoades:

The purpose of this letter is to provide preliminary information regarding general fund tax revenue estimates for the remainder of the 2007-09 biennium. At the beginning of each year, this office prepares revised general fund revenue estimates based on a review of year-to-date tax collections data and the most recent national economic forecast. Typically, the new revenue estimates are released in January, and are based on the January forecast of the U.S. economy by Global Insight, Inc. and on tax collections through December. The current estimates of \$13,100.1 million in 2007-08 and \$13,626.2 million in 2008-09 were prepared in January, 2007, with adjustments to account for law changes included in Act 20 (the 2007-09 biennial budget bill).

In 2007, the economy performed somewhat better than expected last January. However, looking forward, the forecast has been revised downward significantly for calendar years 2008 and 2009. Estimated growth in production, consumption, income, and profits is lower than the January, 2007, forecast. In addition, the current forecast assumes that the risk of a recession early in 2008 has increased to 40%. The primary areas of concern are the housing and credit markets and high energy prices.

Prior to the December collection report, in the aggregate, year-to-date tax revenues were generally consistent with the current estimates. However, the December collection report showed considerable weakness in the three major taxes. When compared to December, 2006, monthly sales tax collections decreased by 1.0%, individual income tax collections (when adjusted for late postings) declined by 1.2%, and corporate income tax collections increased by 1.8%. Year-to-date collections growth for all three of these taxes was below expectations. Revenues from the individual income tax were also affected by a delay in the payment of tax

refunds from tax year 2006, which will result in an estimated one-time revenue loss of approximately \$75 million in 2007-08.

Based on the collections data through December, 2007, and the January, 2008, economic forecast, the Act 20 general fund balance could be revised downward by \$300 million to \$400 million over the remainder of the biennium. However, as noted, the December collection report was considerably weaker than in previous months. In addition, a number of negative economic reports have been released since the January forecast was prepared. Therefore, we believe it would be prudent to wait until early February before issuing formal reestimates. This would allow us to examine sales taxes paid on purchases made during the Christmas shopping season and to better determine whether the December report was an anomaly or evidence of a prevailing trend in collections. We would also be able to review the February economic forecast, which will incorporate more recent data regarding employment, consumption, profits, financial markets, interest rate decisions by the Federal Reserve Board, federal economic stimulus proposals, and other economic variables.

Following receipt of the February forecast and tax collection data through January, we will provide a formal reestimate of general fund tax collections for the 2007-09 biennium. It is anticipated that this report will be completed during the week of February 10, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob", with a stylized flourish at the end.

Robert Wm. Lang
Director

RWL/sas

cc: Members, Wisconsin Legislature